

22th March 2024

Voltamp Transformers Ltd. – BUY

CMP : Rs. 8,874
Target Price : Rs. 11,000
Upside : 25%
Stop Loss : Rs. 7454 (Closing basis)

Investment Thesis

- Voltamp Transformers Limited (VTL) manufactures and sells various electrical transformers. It offers oil filled transformers, cast resin transformers, unitized sub-stations, induction furnace transformers, lighting transformers, and ring main unit. It has a 15% domestic market share.
- Last two quarter gross margin of VTL has been at a decadal high. Realization growth has outpaced volume growth in the last 5 years with 10% realization compounded annual growth rate (CAGR) over FY18-23 against a volume CAGR of 5%
- VTL has healthy order inflows at Rs490 crs (4,697 mega volt amp (MVA) during 9MFY24 at Rs1,390 crs (11,734 MVA), up ~34% in value and ~31% YoY in volume, bringing the total order book to nearly Rs1,500 crs for FY24.
- It has a diversified clientele with more than 1,000 customers across various end-use industries such as power, oil refinery, textile, chemical, real estate, automobile, pharmaceutical, cement, infrastructure and steel, spread across the country. It counts large players like Siemens, L&T, ABB, Hitachi, Adani, Reliance as its key customers.
- It has consistently enjoyed debt-free status, which indicates its strong focus on better working capital management.
- Over 95% of VTL's sales in the past three years have been to private sector players, thereby resulting in limited exposure to state government-owned power sector undertakings, wherein, the receivables are elongated.
- VTL's large installed base of over ~70,000 transformers across sectors & geographies augurs well for the growing opportunity in its high-margin service business.

Financials

- VTL's revenue increased at a CAGR of 26.02% over a period of 3 years. Operating and net profit have increased at a CAGR of 44.22% and 21.32% over the same time period

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue* (Rs in Crs)	692	1,127	1,385	1,662	1,975
EBITDA*(Rs in Crs)	77	139	231	332	395
Adj. PAT * (Rs in Crs)	112	133	200	314	363
Adj. EPS (Rs.) *	110.92	131.30	197.63	310.96	359.23
PE Multiple (x)	9.88	14.95	13.57	33.7	37.00
RoE (%)	13.45	14.09	18.05	22.13	20.36

Stock Data

Market Cap (Rs. Crs)	8,874
Market Cap (\$ Mn)	1,027
Shares O/S (in Mn)	10.11
Avg. Volume (3 month)	43,910
52-Week Range (Rs.)	9,146 / 2,571

Shareholding Pattern

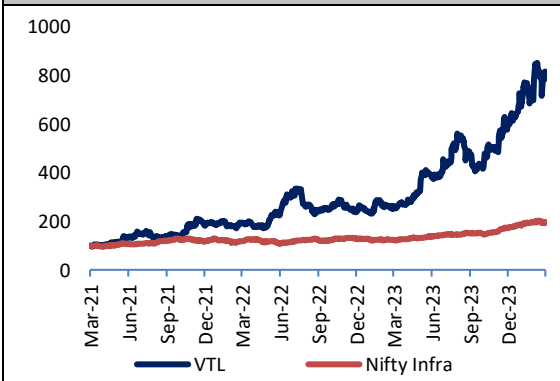
Promoters	38 %
FII's	28.23 %
Institutions	28.69 %
Others (incl. body corporate)	10.07 %

Key Ratios

Div Yield	0.48%
TTM PE	28.4x
ROE	19.2%
TTM EPS (Rs.)	287 /-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	16.9	70	219.6
NIFTYINFRA	16.7	39.2	161.0



- Power transformers accounted for 76% of FY23 revenues, followed by dry type transformers (15%), service and RMU's (7%) and distribution transformers (2%)
- In Q3FY24, revenue grew 14.3% YoY to Rs408 crs with sales volume rising 3.7% YoY to 3,278 MVA. EBITDA grew 90.9% YoY to Rs105 crs with EBITDA margin expanding by 1,019bps YoY to 25.7%, owing to gross margin expansion, liquidated damages and employee benefits.
- Profit after tax (PAT) reported was Rs95 crs, up 86.27% YoY, driven by a robust operating performance and higher other income at Rs25 crs (up 78.57% YoY due to improved income from the investment portfolio)

Key Business Highlights

- The company's transformers have been sold in various countries such as India, Nepal, Bhutan, Sri Lanka, Middle East Asia, South East, and African countries
- VTL's top 10 customers comprised around 26% of its total sales during FY23. (FY22: 23% of the total sales).
- The company also provides repair, overhauling, conversion, and maintenance services for transformers; and supplies spares for transformers.
- The company's production facilities are located at Makarpura and Savli in Vadodara, Gujarat, with an aggregate installed capacity of 14,000 MVA as on March 31, 2023.

Valuation

It is trading at P/E of 28.6 vs industry PE of 38, which suggests a significant undervaluation. We forecast company's revenues will grow 20% in FY24 and 15% in FY25 on the back of its strong market position in industrial transformers, robust demand outlook, debt-free balance sheet, consistent free cash flow generation, and likely capacity expansion by next year.

In light of above, we are valuing Voltamp Transformers at FY25E EPS of Rs.359 to arrive at a **BUY** rating with a **target price** of **Rs.11,000**, translating to an **upside** of **~25%**.

Risk & Concern

- There may be some pricing pressure on the back of rising competitive intensity from capacity expansion of MNCs and large domestic players as well as aggressive bidding from smaller regional players
- Any increase in commodity prices.
- High capacity utilisation might lead to its inability to accept new orders.

Graphs & Charts

Figure 1: Net Sales Trend (Rs. In Crs)

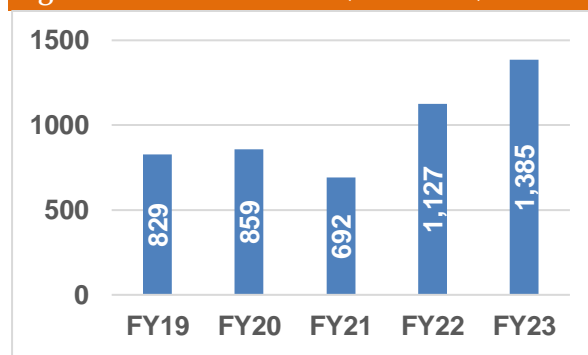


Figure 2: EBITDA & EBITDA Margin Trend

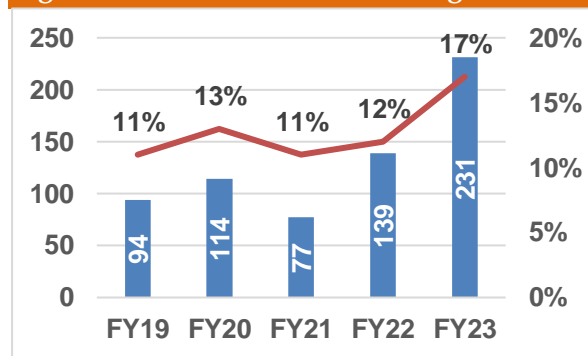


Figure 3: PAT & PAT Margin Trend

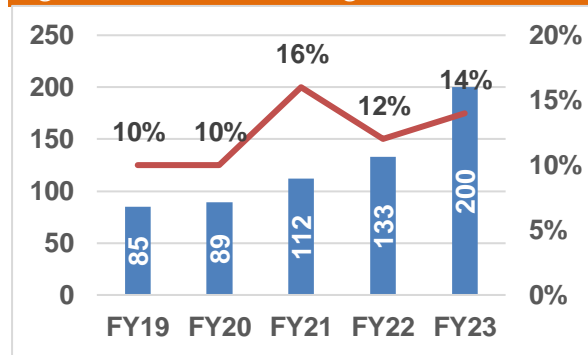
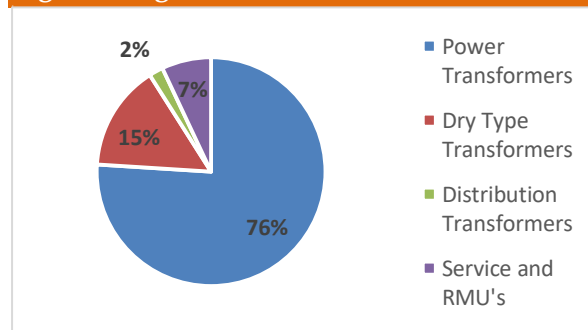


Figure 4: Segment-wise Revenue (FY23)



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